

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE HIBISCUS COAST MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hibiscus Coast Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages [xx] to [xx].

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No.1 of 2007) (DoRA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this year, I have determined that my audit of any disclosures made by the Hibiscus Coast Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury as set out in accounting policy note 1.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Hibiscus Coast Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the applicable basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

Amendments to the applicable basis of accounting

11. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007* issued in *Government Gazette No. 30013 of 29 June 2007*.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Finance Management Act

12. The municipality did not develop and implement a business continuity plan. The municipality has therefore not effectively managed its risk in accordance with section 62(1) (c) (ii) of the MFMA.
13. The municipality has not paid its suppliers within 30 days of receiving the relevant invoice or statement, in accordance with section 65(2)(e) of the MFMA.

Matters of governance

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	Matter of governance	Yes	No
	Audit committee		
1(a)	The municipality had an audit committee in operation throughout the financial year.	✓	
1(b)	The audit committee operates in accordance with approved written terms of reference.	✓	
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
	Internal audit		
2(a)	The municipality had an internal audit function in operation throughout the financial year.	✓	
2(b)	The internal audit function operates in terms of an approved internal audit plan.		✓
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
	Other matters of governance		
3	The annual financial statements were submitted for audit as per the legislated deadlines in terms of section 126 of the MFMA for municipalities.	✓	
4	The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		✓
5	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓

No.	Matter of governance	Yes	No
6	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
7	The prior year's external audit recommendations have been substantially implemented.	✓	
	Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
8	The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	✓	
9	The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.	✓	
10	The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.	✓	

Unaudited supplementary schedules

- The municipality provided supplementary information in the financial statements on whether resources are obtained and used in accordance with the legally adopted budget in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

16. I have reviewed the performance information as set out on pages xx to xx.

Responsibility of the accounting officer for the performance information

17. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

18. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

19. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Content of integrated development plan

21. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.

Internal auditing of performance measurements

22. The Hibiscus Coast Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit process, as required in terms of section 45 of the MSA.

Measurable objectives not consistent

Measurable objectives are materially inconsistent between integrated development plan and the performance report

26. I draw attention to the measurable objectives reported in the performance report of the Hibiscus Coast Municipality which are materially inconsistent when compared with the predetermined objectives as per the integrated development plan.

The following table reflects the material differences:

No	Objective per Integrated development plan	Objective per performance report
1.	To ensure that 98% of inhabitants of HCM live in formal housing by 2012, and are serviced appropriately	No objective
2.	To ensure all public buildings and facilities are maintained, and are community-user-friendly.	Beautification: To beautify and maintain area of HCM. Attend to complaints regarding council vacant lots
3.	To ensure 50% reduction in unemployment by 2001 To ensure social programmes to assist poor are effective and efficient. To ensure all inhabitants have housing, water, electricity and refuse systems by 2011.	Recycling: (i) To recycle cardboard, tins, plastics and reduce waste sent to Outlands Landfill Site Refuse (ii) To create jobs and promote Local Economic Development.(Pg 26) Poverty alleviation: To ensure sustainable poverty alleviation programmes encompassing food security and market linkage.(Pg 61)
4.	To ensure youth within the HCM area are empowered: participate in economic, political and social processes, and are able to contribute meaningfully to society.	Youth: To encourage young people to take responsibility in their own development. (Pg 6).

Measurable objectives are materially inconsistent between the budget and the performance report

27. I draw attention to the fact that the predetermined objectives as per the budget are materially inconsistent when compared. to the performance report of the Hibiscus Coast Municipality

The following table reflects the material differences:

No	Objective per budget	Objective per performance report
1.	To ensure that all households within the HCM have adequate water, sanitation, electricity, refuse removal and roads ensuring accessibility, home affairs services and pension payout points, and access to cemeteries.	Cleansing and maintenance: To ensure that verges are cut twice a month in summer and once a month in winter. Cleansing of CBD's and Public Facilities. (Pg 20) Maintenance and operation of cemeteries (Pg 19)
2.	To ensure that 98% of inhabitants of HCM live in formal housing by 2012, and are serviced appropriately	No objective
3.	To ensure all public buildings and facilities are maintained, and are community-user-friendly.	Beautification: To beautify and maintain area of HCM. Attend to complaints regarding council vacant lots
4.	To ensure 50% reduction in unemployment by 2001 To ensure social programmes to assist poor are effective and efficient. To ensure all inhabitants have housing, water, electricity and refuse systems by 2011.	Recycling: (i) To recycle cardboard, tins, plastics and reduce waste sent to Outlands Landfill Refuse Site (ii) To create jobs and promote Local Economic Development.(Pg 26) Poverty alleviation: To ensure sustainable poverty alleviation programmes encompassing food security and market linkage.(Pg 61)
5.	To contribute to the reduction of new infections of HIV/Aids by 2010 through a 25% decrease in vertical transmission in neonates: 10% increase per annum of patients on ART and 50% increase in the number of community based caregivers and support programmes.	HIV/AIDS: To contribute to the reduction of the effects of the HIV/AIDS pandemic.
6.	To ensure youth within the HCM area are empowered: participate in economic, political and social processes, and are able to contribute meaningfully to society.	Youth: To encourage young people to take responsibility in their own development. (Pg 6).
7.	To ensure skills development of employees of the HCM and inhabitants of the HCM: to enable meaningful participation in society and to enable personal growth.	Improve productivity of staff by capacity, training and compliance of legislation.
8.	To ensure all communities have access to basic community facilities and social services.	No objective
9.	To ensure all residents live in a safe and secure environment: to reduce crime and prevent fire damage.	No objective
10.	To ensure an efficient and effective developmental local government	No objective
11.	To ensure continuous functioning of Council with the view to addressing community needs.	Strategic planning:

12.	To ensure integrated, coordinated government	To have an integrated IDP as a plan for the state as a whole and respond to the needs of communities. (Pg 4)
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Objectives reported in the performance report, but not predetermined as per integrated development plan and budget

28. I draw attention to the fact that the following objectives are reported in the draft performance report of the Hibiscus Coast Municipality, although they were not included as predetermined objectives in the integrated development plan and the budget:

- To improve communication between the municipality and the internal and external publics.
- To positively position council as a leader in various disciplines, in keeping with the vision.
- To provide executive support to the Mayor, Deputy Mayor and Speaker.
- To ensure that data is accurate in order to bill correctly, thereby improving cash collections and reducing outstanding debts.

APPRECIATION

29. The assistance rendered by the staff of the Hibiscus Coast Municipality during the audit is sincerely appreciated.

Clifford J. Gordon

Pietermaritzburg

28 November 2008



AUDITOR - G E N E R A L

Mr S W Mkhize
The Accounting Officer
Hibiscus Coast Municipality
PO BOX 5
Port Shepstone
4240

12 November 2008

Reference: 21247Reg 07/08

Dear Sir

**FINAL MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE AUDIT OF
PERFORMANCE INFORMATION OF THE HIBISCUS COAST MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2008**

INTRODUCTION

1. We have completed the audit of the financial statements of the Hibiscus Coast Municipality for the year ended 30 June 2008. This management report is provided to the accounting officer and communicates any matters that came to our attention during the audit which, in our opinion, is relevant to the municipality.

AUDITOR'S RESPONSIBILITY

2. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of performance information.
3. Our audit was conducted in accordance with the International Standards on Auditing read with *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.*
4. The auditing standards require us to plan and perform the audit as well as to obtain all the information and explanations that we consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by fraud or error. This involves performing procedures to obtain assurance about the amounts and disclosures in the financial statements.
5. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments we consider the internal controls relevant to the preparation and presentation of the financial statements. Our audit also includes evaluating the appropriateness of the accounting policies and the reasonableness of the accounting estimates made by management, as well as the overall presentation of the financial statements.
6. We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements or performance information, or compliance with all applicable legislation. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any information and internal control systems, there is an unavoidable risk that some, even material, misstatements might remain undiscovered.

7. In addition to our responsibility to express an opinion on the financial statements, we have also performed procedures of an audit nature to obtain evidence about the performance information and related systems, processes and procedures. The procedures selected depend on our judgement.
8. Our audit report arising from the annual audit will also contain an elaboration on non-compliance with any applicable legislation relating to financial matters, financial management and other related matters.
9. In addition, we will read other information accompanying the financial statements to determine whether there are material inconsistencies between the audited financial statements and the other information.

RESPONSIBILITY OF THE ACCOUNTING OFFICER

10. The responsibility for the preparation of financial statements that fairly present the financial position, financial performance and cash flows of the municipality in accordance with the applicable basis of accounting is that of the accounting officer. Our audit report will explain that the accounting officer is responsible for the fair presentation of the financial statements in accordance with the applicable financial reporting framework. This responsibility includes:
 - designing, implementing and maintaining internal controls relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are appropriate in the circumstances.
11. In addition, the accounting officer is responsible for ensuring, through oversight of management, that the municipality establishes and maintains internal control to provide reasonable assurance with regard to the effectiveness and efficiency of operations and compliance with applicable legislation. The systems of financial and risk management and internal control should provide reasonable assurance that adopted policies and prescribed procedures are adhered to for the prevention and detection of errors and irregularities, including fraud and illegal acts. They should also provide for the regular monitoring of performance against objectives, and ensure that waste is minimised and business is conducted with due regard to probity.
12. The financial statements, maintenance of effective control measures and compliance with any applicable legislation are the responsibility of accounting officer.
13. Furthermore it is the responsibility of the municipal manager to provide us with:
 - all information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements
 - any additional documentation that we may request from management and, where appropriate, those charged with governance
 - unrestricted access to those within the entity from whom we determine it necessary to obtain audit evidence.
14. The accounting officer also has specific responsibilities as legislated in the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003 (MFMA)] to report information related to performance against predetermined objectives.

SIGNIFICANT FINDINGS FROM THE AUDIT

Non-compliance with applicable legislation

- A business continuity plan as required by section 62(1) (c) (ii) of the MFMA, did not exist during the year under review.
- Payments to suppliers has not been made within 30 days of receiving the relevant invoice or statement, in accordance with section 65(1)(2)(e) of the MFMA.

Matters of governance

15. The MFMA tasks the municipal manager with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which we have assessed as follows:

No.	Matter of governance	Yes	No
	Audit committee		
1(a)	The municipality had an audit committee in operation throughout the financial year.	✓	
1(b)	The audit committee operates in accordance with approved written terms of reference.	✓	
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
	Internal audit	✓	
2(a)	The municipality had an internal audit function in operation throughout the financial year.	✓	
2(b)	The internal audit function operates in terms of an approved internal audit plan.		✓
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
	Other matters of governance		
3	The annual financial statements were submitted for audit as per the legislated deadlines in terms of section 126 of the MFMA for municipalities.	✓	
4	The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		✓
5	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
6	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
7	The prior year's external audit recommendations have been substantially implemented.	✓	
8	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.	✓	
9	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.	✓	
10	The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.	✓	
11	Delegations of responsibilities are in place.	✓	
12	Supply chain management policies and procedures were appropriately applied.	✓	

No.	Matter of governance	Yes	No
13	There is a functioning performance management system.		✓
14	Based on the available information, performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

	Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
15	The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	✓	
16	The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.	✓	
17	The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.	✓	

Misstatements in the financial statements submitted for audit on 31 August 2008

Material misstatements corrected that were not initially identified by the entity's control systems

The financial statements approved by the municipal manager and submitted for auditing on 31 August 2008 have been significantly revised in respect of the following misstatement identified during the audit.

- Attorneys fees of R5 562 608 was incorrectly raised as accounts payables resulting in accounts payable being overstated and debtors understated by that amount.
- An inventory amount of R152 644 was not written off as per council resolution .This resulted in inventory being overstated and inventory written off being understated by that amount.
- Depreciation amount of R87 617 was not taken out of donations and public contributions reserve and put into accumulated surplus/(deficit).This resulted in overstatement of donation and public contributions reserve and understatement of accumulated surplus(deficit) by that amount.
- Current year's depreciation amount of R14 720 475 for assets funded by capitalisation reserve was not taken out of capitalisation reserve and put into accumulated surplus/(deficit).This resulted in overstatement of capitalisation reserve and understatement of accumulated surplus/(deficit) by the same amount
- Current year's depreciation amount of R26 745 472 for assets funded by capital replacement reserve was not taken out of capital replacement reserve and put into accumulated surplus/(deficit).This resulted in overstatement of capital replacement reserve and understatement of accumulated surplus/(deficit) by the same amount
- The balance of R3 794 398 in the Public Contributions and donations reserve in the fixed asset register was not equal to the carrying amount of property, plant and equipment financed by Public Contributions and donations.

- An accrual amounting to R1 418 868 was incorrectly taken to accumulated surplus/ (Deficit). This resulted overstatement of Accumulated surplus/ (Deficit) and understatement of accruals by that amount.
- The accruals amounting to R6 369 724 was not raised at year end. This resulted in accruals and cash and bank being understated by the same amount
- An amount of R1 913 791 had been incorrectly allocated to the MIG income account in the ledger. This resulted in an overstatement of grant income and an understatement of liability by the same amount.
- The amount of investment disclosed in the financial statements was not equal to the amount as per the investment register. The difference was R1 593 380.
- The debtor amounting to R108 025 was not raised resulting in understatement of debtors and revenue by that amount.
- The sundry debtors was overstated and provision for bad debts understated by R14 755 569, as the recoverability of the sundry debtors had not been reviewed and appropriately accounted for.
- The property plant and equipment and revaluation reserve were understated by R239 255 as a result of item of property plant and equipment being under valued.
- Property, Plant and Equipment was overstated and expenditure understated by R414 769, as the assets less than R2000.00 had not been expensed in terms of the fixed assets management policy.
- Certain long-term debtors have been long-outstanding resulting in an overstatement of long-term debtors and understatement of bad debt by R14 236 980.
- The leave provision of R187 234 was incorrectly raised as a result of incorrect leave balances used. This resulted in overstatement of provision and employee related cost by that amount.

Performance Information

The following shortcomings were identified in relation to the managing of and reporting on performance information:

- The integrated development plan did not include the key performance indicators and performance targets determined in terms of its performance management system.
- Measurable objectives were inconsistent between the performance report and the integrated development plan.
- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal audit processes, as required by section 45 of the MSA.
- Objectives reported in the performance report were not included as predetermined objectives in integrated development plan and the budget.
- No quarterly reports on performance management systems by the internal audit, as required by section 14(1) (c) of the Local Government: Municipal Planning and Performance Management Regulations 2001 of the MSA.

RATINGS OF DETAILED AUDIT FINDINGS

16. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the audit report

These matters should be addressed as a matter of urgency.

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

These matters should be addressed within the next 12 months.

- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.

These matters should be addressed at the discretion of the entity.

Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

APPRECIATION

17. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Hibiscus Coast Municipality during the audit.

Yours sincerely

Herman Van Zyl
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Distribution:

Municipal Manager
Chief Financial Officer
Audit committee chair
Head of internal audit

SUMMARY OF AUDIT FINDINGS

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
PERFORMANCE INFORMATION													
10.	Content of the Integrated Development Plan	Performance information	Control environment				✓			No			
11.	Measurable objectives are inconsistent between performance report and IDP/Budget	Performance information	Control activity				✓			No			
13.	Internal auditing of performance measurements	Performance information	Control activity				✓			No			
14.	Objectives reported in performance report, but not predetermined as per integrated development plan and/ or budget	Performance information	Control activity				✓			No			
15.	No quarterly reports on performance management systems by the internal audit.	Performance information	Control activity				✓			No			
COMPLIANCE WITH LEGISLATION (NON-AFS)													
16.	Business Continuity Plans are not documented	Compliance (Non-AFS)	Control environment			✓				No			
17.	Payment not made within 30 days of the receipt of invoice	Compliance (Non-AFS)	Control activity			✓				No			
EMPLOYEE COSTS													
19.	Staff do not sign attendance register	Compliance (Non-AFS)	Control environment					✓		No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
OPERATING EXPENDITURE													
20.	Exception reports are not generated	Control	Control activity						✓	No			

MATTERS AFFECTING THE AUDIT REPORT

1. Content of the Integrated Development Plan

Audit Finding

Section 26 (i) of the MSA requires the integrated development plan to reflect the key performance indicators and performance targets determined in terms of section 41.

During the audit we have noted that the integrated development plan of the municipality did not include the key performance indicators and performance targets as determined in terms of its performance management system.

Recommendation

Management should ensure that adequate review of operations, processes and activities to ensure that section 26(i) of the MSA in respect of the integrated development plan is adhered to.

Management Response

Management accepts the finding.

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Name: Khetha Zulu

Position: Director of operations

Date: 31/01/2009

Auditor's Response

Management response is acknowledged. To be reported in audit report and followed up next year.

2. Measurable objectives are inconsistent between the IDP and the performance report

Audit finding

I draw attention to the measurable objectives reported in the predetermined objectives as per the integrated development plan and budget which are materially inconsistent when compared with the performance report of the municipality.

The following table reflects the material differences:

No	Objective per Integrated development plan	Objective per performance report
1.	To ensure that 98% of inhabitants of HCM live in formal housing by 2012, and are serviced appropriately	No objective
2.	To ensure all public buildings and facilities are maintained, and are community-user-friendly.	Beautification: To beautify and maintain area of HCM. Attend to complaints regarding council vacant lots
3.	To ensure 50% reduction in unemployment by 2001 To ensure social programmes to assist poor are effective and efficient. To ensure all inhabitants have housing, water, electricity and refuse systems by 2011.	Recycling: (i) To recycle cardboard, tins, plastics and reduce waste sent to Outlands Landfill Refuse Site (ii) To create jobs and promote Local Economic Development.(Pg 26) Poverty alleviation: To ensure sustainable poverty alleviation programmes encompassing food security and market linkage.(Pg 61)
4.	To ensure youth within the HCM area are empowered: participate in economic, political and social processes, and are able to contribute meaningfully to society.	Youth: To encourage young people to take responsibility in their own development. (Pg 6).

The following table reflects the material differences:

No	Objective per budget	Objective per performance report
1.	To ensure that all households within the HCM have adequate water, sanitation, electricity, refuse removal and roads ensuring accessibility, home affairs services and pension payout points, and access to cemeteries.	Cleansing and maintenance: To ensure that verges are cut twice a month in summer and once a month in winter. Cleansing of CBD's and Public Facilities. (Pg 20) Maintenance and operation of cemeteries (Pg 19)
2.	To ensure that 98% of inhabitants of HCM live in formal housing by 2012, and are serviced appropriately	No objective
3.	To ensure all public buildings and facilities are maintained, and are community-user-friendly.	Beautification: To beautify and maintain area of HCM. Attend to complaints regarding council vacant lots

4.	<p>To ensure 50% reduction in unemployment by 2001</p> <p>To ensure social programmes to assist poor are effective and efficient.</p> <p>To ensure all inhabitants have housing, water, electricity and refuse systems by 2011.</p>	<p>Recycling:</p> <p>(i) To recycle cardboard, tins, plastics and reduce waste sent to Outlands Landfill Refuse Site</p> <p>(ii) To create jobs and promote Local Economic Development.(Pg 26)</p> <p>Poverty alleviation:</p> <p>To ensure sustainable poverty alleviation programmes encompassing food security and market linkage.(Pg 61)</p>
5.	<p>To contribute to the reduction of new infections of HIV/Aids by 2010 through a 25% decrease in vertical transmission in neonates: 10% increase per annum of patients on ART and 50% increase in the number of community based caregivers and support programmes.</p>	<p>HIV/AIDS:</p> <p>To contribute to the reduction of the effects of the HIV/AIDS pandemic.</p>
6.	<p>To ensure youth within the HCM area are empowered: participate in economic, political and social processes, and are able to contribute meaningfully to society.</p>	<p>Youth:</p> <p>To encourage young people to take responsibility in their own development. (Pg 6).</p>
7.	<p>To ensure skills development of employees of the HCM and inhabitants of the HCM: to enable meaningful participation in society and to enable personal growth.</p>	<p>Improve productivity of staff by capacity, training and compliance of legislation.</p>
8.	<p>To ensure all communities have access to basic community facilities and social services.</p>	<p>No objective</p>
9.	<p>To ensure all residents live in a safe and secure environment: to reduce crime and prevent fire damage.</p>	<p>No objective</p>
10.	<p>To ensure an efficient and effective developmental local government</p>	<p>No objective</p>
11.	<p>To ensure continuous functioning of Council with the view to addressing community needs.</p> <p>To ensure integrated, coordinated government</p>	<p>Strategic planning:</p> <p>To have an integrated IDP as a plan for the state as a whole and respond to the needs of communities. (Pg 4)</p>

Recommendation

Management should adequately review operations, processes and activities to ensure that measurable objectives are consistent between IDP / Budget and performance report.

Management Response

Management accepts the finding. The IDP and SDBIP objectives have been aligned in the 2008/09 documents and will continue to be aligned in future documents.

Name: Khetha Zulu

Position: Director of operations

Date: 31/01/2009

Auditor's Response

Management response is acknowledged. To be reported in audit report and followed up next year.

3. Internal auditing of performance measurements

Audit finding

Section 45 of the MSA states that the results of performance measurements in terms of section 41(1) (c) must be audited as part of the municipality's internal auditing processes; and annually by the Auditor-General.

During the audit we have noted that the municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Recommendation

Management should ensure that policies and procedures relating to the development of the mechanisms, systems and processes for the auditing of performance information as part of its internal audit processes are implemented adequately.

Management Response

Management accepts the finding. The 2008/09 Internal Audit plan now incorporates the review of the Performance Management System.

Name: Khetha Zulu

Position: Director of operations

Date: 31/01/2009

Auditor's Response

To be reported in the audit report.

4. Objectives reported in draft performance report, but not predetermined as per integrated development plan and budget

Audit finding

I draw attention to the following objectives which are reported in the performance report of the auditee, although they were not included as predetermined objectives in the integrated development plan and the budget:

- To improve communication between the municipality and the internal and external publics.
- To positively position council as a leader in various disciplines, in keeping with the vision.
- To provide executive support to the Mayor, Deputy Mayor and Speaker.
- To ensure that data is accurate in order to bill correctly, thereby improving cash collections and reducing outstanding debts.
- To expand grant funding opportunities for capital and operational purposes.
- To successfully implement the Municipal Property Rates Act and the new financial system.
- To ensure that all 4 MPCCs are functional and that they offer quality services.

Recommendation

Management should maintain adequate review of operations, processes and activities to ensure that measurable objectives are consistent between IDP, Budget, and performance report.

Management comments

Management accepts the finding. The IDP, Budget, and performance report objectives will be aligned as from the 2008/09 documents going forward.

Name: Khetha Zulu

Position: Director of operations

Date: 31/01/2009

Auditor's response

To be reported in the audit report.

5. No quarterly reports on performance management systems by the internal audit

Audit finding

In terms of section 14(1)(c) of the Local Government :Municipal Planning and Performance Management Regulations 2001 of the Municipal Systems Act a municipality's internal auditors must on a continuous basis audit the performance measurements of the municipality and submit quarterly reports on their audits to the municipal manager and the performance audit committee.

It has been noted that the internal auditors did not, on a continuous basis, audit the performance measurements of the municipality and subsequently did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

Recommendation

Adequate review of operations processes and activities should be undertaken to ensure that they are in compliance with section 14(1) (c) of the Local Government: Municipal Planning and Performance Management Regulations 2001 of the Municipal Systems Act.

Management Response

Management agrees with finding as there was instability in the Internal Audit department during year under review as the department experience a number of resignations. These resignations were that of newly appointed Internal Audit Manager, Senior Internal Auditor and the Director Operations who was looking after the operations of the Internal Audit department. These resignations left the department with inadequate capacity to undertake the required audit reviews. These crucial posts have recently been filled and the appointment of the Audit Manager is currently underway. Also these reviews have been included in the Internal Audit plan for 2008/9 financial year.

Name: Lerato Twane

Position: CFO

Date: 31/01/2009

Auditor's Response

Management comments accepted the matter will be included in the other matters in the audit report.

6. Business Continuity Plans are not documented

Audit finding

In terms of section 62(1)(c)(ii) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take reasonable steps to ensure that the municipality has and maintain effective transparent systems of financial risk management and internal control.

During the audit it was noted that the municipality has no approved documented disaster recovery plan or business continuity plan resulting in the non-compliance with section 62 (1) (c) (ii) of the MFMA.

Recommendation

Adequate review of operations, processes and activities should be undertaken to ensure that they are in compliance with section 62(1) (C) (ii) of the MFMA.

Management Response

Management accepts the finding. We will embark on a process with Ugu District Municipality to generate a district wide business continuity plan and will use this to improve on our own Disaster Plan.

Name S.W Mkhize

Position: Municipal Manager

Date: 31/01/2009

Auditor's Response

Management response is acknowledged. This is going to be reported as non-compliance.

7. Payment not made within 30 days of the receipt of invoice

Audit finding

Section 65(1) and section 65(2) (e) of the Municipal Finance Management Act 56 of 2003 states that the accounting officer of the municipality is responsible for expenditure management of the municipality and must take reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

During the audit of expenditure for the following supplier's, we have noted that payment was not made within 30 days of receiving the relevant invoice or statement.

Supplier Name	Invoice No.	Amount R	Invoice Date	Payment Date	No. of Days
ZMS Management solutions	INA10673	341 185.31	11/10/2007	03/12/2007	53
Interswitch	9489	65 039.50	31/03/2008	08/05/2008	38
Roadworthy Centre	7	14 718.06	10/08/2007	05/10/2007	55
Shepstone & Wylie	10379713	21 950.53	25/09/2007	07/12/2007	72
ANZ Chemicals	INV19637	41,420.76	26/01/2008	07/03/2008	40
BFBA Consultants(Pty)Ltd	8724/70	34 013.04	29/12/2007	14/02/2008	76

Root cause

Inadequate review of operations, processes and activities are undertaken to ensure that payments to creditors are made within 30 days resulting in the non-compliance of section 65(2)(e) of the Municipal Finance Management Act 56 of 2003.

Risk

Interest and penalties could be incurred by the municipality resulting in fruitless and wasteful expenditure due to late payments of suppliers.

Recommendation

Management should implement reviews of operations, processes and activities to ensure that payments to creditors are made within 30 days.

Management Response

Management agrees with finding and will endeavour to improve payment process in order to speed the process up. The delay is normally caused by invoices not reaching the relevant people timorously for authorization or invoices getting lost on route and only knowing of their existence once the creditor enquires. Management will look at a system to track and trace outstanding invoices. Certain delays are caused by unique circumstances as in the case of ZMS Management Solutions, where we were not happy with the invoice and requested more information from the supplier during the verification and certification of payment stage.

Name : Lerato Twane

Position: CFO

Date: 31/01/2009

Auditor's Response

Management response is acknowledged but the issue is going to be reported and followed next year.

ANNEXURE B

OTHER IMPORTANT MATTERS

8. Employees do not sign attendance registers

Audit finding

It was noted that certain employees do not sign attendance registers Some leave registers do not tally up with the dates on the leave forms. Examples are:

No	Employee	Code
1	Cele MH	CEL618
2	Mhlamvu Y	HHL612

Root cause

Inadequate review of operations processes and activities have not been undertaken by the municipality to ensure that attendance register are signed by all the employees.

Risk

Employees could take leave without any authorization and could accumulate leave which they may not be entitled to resulting in financial loss to the municipality.

Recommendation

Adequate review of operations, processes and activities should be undertaken by management to ensure that attendance registers are signed by all the employees.

Management's comments

The signing of attendance register is the function of HR and the relevant departments. The staff in question is staff belonging to the Directorate Cleansing and Maintenance MHL 611 and CEL 618 is in the Directorate Housing and Infra structure. The salary office processes all source documentation that is authorised and verified by the various departments. The control lies within the relevant departments to ensure that staff signs on and off and that the timesheet, attendance registers and overtime is approved and verified before submission to the salary office. Management will re-iterate to directors the importance of signing attendance registers.

Name: Lerato Twane

Position: CFO

Date: 31/01/2009

Auditor's comments

This matter will be followed-up next year.

ANNEXURE C

9. No exception reports are generated

Audit finding

In terms of section 62 (1)(c) (ii) of MFMA "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure - that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control;

Upon enquiry with management the municipality does not generate exceptions reports from Munsoft 2010 as the application system cannot generate exception reports.

Root cause

Lack of assignment of authority and responsibility, which includes how authority and responsibility for operating activities are assigned.

Risk

Errors in the information systems could not be detected and corrected timeously.

Recommendation

Management should assignment of authority and responsibility, to ensure that authority and responsibility for operating activities are assigned.

Management response

Management accepts the finding although we have migrated from Munsoft 2010 to Munsoft 3i. We will contact the system's service provider to make these reports available.

Name : Lerato Twane

Position: CFO

Date: 31/01/2009

Auditor's response

Accepted and this matter will be followed up next year